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**THE IMPACT OF PROFITABILITY RATIO TOWARDS STOCK RETURNS
OF CONSUMER PRODUCTS & SERVICES SECTOR IN MALAYSIA**

By

MUHAMMAD ZAHID BIN MUSA



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In Partial Fulfilments of the Requirement for the

Master in Islamic Finance and Banking



Pusat Pengajian Perniagaan Islam
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ABSTRACT

Equity investing offers some substantial returns together with the risk associated with it. As a diversification method in investing, it requires some basic and advanced analysis in searching the real value of the listed equity in stock exchange. Financial statement analysis provides the investor with historical performance and a snapshot of current performance of the firms for the underlying stocks. As most of the financial literatures focusing on the established and matured market such as in United States, how will the information of financial positions for companies benefited the investors in a smaller and emerging market like Bursa Malaysia Stock Exchange? The purpose of this study is to examine the impact of the financial ratios, focusing on the profitability ratio and its selected components on the returns of the Shariah-approved stocks in the Consumer Products & Services sector in Bursa Malaysia Stock Exchange. The result showed that the profitability ratio showed an overall significant relationship in explaining the stock returns. Further, some components of the ratio were able to explain the returns individually with either a positive or negative effect. This research contributes to the available literature in local Shariah-approved equity research as well as to the investing community. It suggests that market analysts and decision makers in investing community should include the analysis of profitability ratio together other variables in their analysis of investment. Other than that, companies should be focusing more on its internal factor such as the company's assets in order further increase the operating profit.

Keyword: Profitability ratio, stock returns, equity investment

ABSTRAK

Pelaburan ekuiti menawarkan pulangan yang baik beserta risiko yang berkaitan dengannya. Sebagai satu kaedah mempelbagaikan pelaburan, ia memerlukan suatu bentuk analisa secara asas dan lanjutan dalam mencari nilai sebenar sesebuah ekuiti yang tersenarai di bursa saham. Analisa penyata kewangan menyediakan pelabur dengan paparan prestasi kewangan lampau dan keadaan kewangan semasa sesebuah syarikat yang mendasari harga saham tersebut. Oleh kerana kebanyakan sorotan karya kewangan memberikan fokus terhadap pasaran yang lebih maju dan besar seperti di Amerika Syarikat, persoalan bagaimanakah maklumat berkaitan kedudukan kewangan sesebuah syarikat dapat memberi manfaat kepada pelabur di pasaran yang lebih kecil dan membangun seperti Bursa Saham Malaysia? Tujuan kajian ini dijalankan adalah untuk menganalisa impak nisbah kewangan, dengan fokus terhadap nisbah keuntungan dan komponennya terhadap pulangan saham-saham yang terdapat dalam sector Produk & Perkhidmatan Pengguna di Bursa Saham Malaysia. Dapatan Kajian menunjukkan bahawa nisbah keuntungan mempunyai hubungan yang ketara secara keseluruhannya dengan pulangan saham. Seterusnya, sebahagian komponen nisbah ini mampu untuk menjelaskan factor pulangan saham sama ada secara positif atau negatif. Kajian ini menyumbang kepada sorotan karya kewangan sedia ada berkaitan kajian ekuiti patuh-Shariah dan juga terhadap komuniti pelabur. Dapatan kajian mencadangkan agar penganalisis pasaran dan pembuat keputusan dalam komuniti pelabur memberikan tumpuan terhadap nisbah keuntungan di samping pembolehubah lain dalam analisis pelaburan mereka. Selain itu, syarikat-syarikat yang tersenarai perlu menfokuskan kepada sumber dalaman seperti asset-aset syarikat untuk meningkatkan kadar keuntungan operasi mereka.

Kata kunci : Nisbah keuntungan, pulangan saham, pelaburan ekuiti

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Muhammad Zahid bin Musa

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TABLE OF CONTENTS

	Page
TITLE PAGE	
CERTIFICATION OF THESIS WORK	
PERMISSION TO USE	ii
ABSTRACT	iii
ABSTRAK	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF ABBREVIATIONS	xi
CHAPTER ONE: INTRODUCTION	1
1.0 Introduction	1
1.1 Background of the Study	1
1.2 Overview of Financial Statement and Ratio Analysis	5
1.3 Problem Statement	6
1.4 Research Questions	10
1.5 Research Objectives	10
1.6 Significance of the Study	10
1.7 Scope and Limitation of the study	11
1.8 Organization of the Research	14
1.9 Summary of the Chapter	15
	vi

CHAPTER TWO: LITERATURE REVIEW	16
2.0 Introduction	16
2.1 Concept of financial ratio analysis	16
2.2 Stock Returns	20
2.3 Determinants of stock returns	21
2.4 Related Theories	23
2.5 Summary of the chapter	25
 CHAPTER THREE: RESEARCH METHODOLOGY	 26
3.0 Introduction	26
3.1 Research Design	26
3.2 Theoretical Framework	27
3.3 Hypotheses Development	28
3.3.1 Profitability Ratio	28
3.4 Data Collection Method	31
3.4.1 Data Sources	31
3.4.2 Data Analysis Technique	32
3.5 Operational Definition and Measurements	34
3.6 Summary of Chapter	37

CHAPTER FOUR: RESULTS AND DISCUSSION **38**

4.0 Introduction	38
4.1 Descriptive Statistics	38
4.2 Correlation Analysis	40
4.3 Multicollinearity Check	41
4.4 Regression Analysis	42
4.5 Discussion on findings	44
4.6 The summary of the result	46
4.7 Summary of the chapter	48

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION **49**

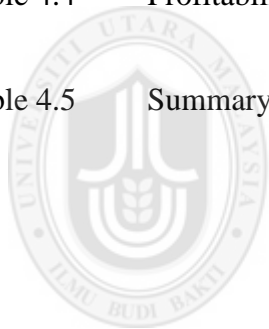
5.0 Introduction	49
5.1 Recapitulation of the Findings	49
5.1.1 Objective 1	49
5.1.2 Objective 2	50
5.1.3 Objective 3	50
5.2 Contribution and Implication of the study	51
5.3 Limitation of the Study	52
5.4 Recommendations of the Study	52

REFERENCES

APPENDICES

LIST OF TABLES

	Page
Table 3.1 Variables and Sources	32
Table 4.1 Descriptive Statistics of Variables	39
Table 4.2 Correlations matrix among variables	40
Table 4.3 Variation Inflation Factor (VIF)	42
Table 4.4 Profitability factors on Stock Returns in Bursa Malaysia	43
Table 4.5 Summary of Final Results of Hypotheses Testing	46



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LIST OF FIGURES

	Page
Figure 1.1 FTSE Bursa Malaysia Index performance	12
Figure 1.2 Consumer Products & Services Index vs Malaysia Ringgit Index	12
Figure 1.3 Local currency against US Dollar movement (1-year performance)	13
Figure 3.1 Theoretical Framework	27
Figure 4.1 Performance Chart for Selected Indexes in Bursa Malaysia for year 2017	39

LIST OF ABBREVIATIONS

CFA	CHARTERED FINANCIAL ANALYSTS
EBIT	EARNINGS BEFORE INTEREST AND TAX
EMH	EFFICIENT MARKET HYPOTHESIS
KLSE	KUALA LUMPUR STOCK EXCHANGE
OPR	OVERNIGHT POLICY RATE
ROA	RETURN ON ASSETS
ROI	RETURN ON INVESTMENTS
ROE	RETURN ON EQUITY
US	UNITED STATES OF AMERICA

CHAPTER 1

INTRODUCTION

1.0 Introduction

This section discusses the introduction to financial statement and ratio analysis, background study which forms the foundation for this research and some challenges with the ratio analysis application in local equity market research. The section also formulates several objectives that distinguish the current study from previous attempt. Lastly, discussion on limitation, significance and contributions of the study will be forwarded.

1.1 Background of the Study

According to Yusof, Wan Ismail and Mohd Naa'im,(2016), *daruriyyat* essentially refers to the five objectives of the Shariah, as expounded by Al Imam al-Ghazali in his *al-Mustafa fi 'Ilm al-Usul*, as 'the objective of the Shariah is to promote the well being of all mankind, which lies in safeguarding their faith, their life, their intellect, their lineage and their wealth. Whatever ensure the safeguard of those five serves public interest and is desirable and whatever hurts them is against public policy and its removal is desirable'.

According to al-Zuhayli, the word *al-mal* literally means something that is possessed and controlled (*hizayah*) by someone, be it physically ('*ain*) or usufruct (*manfaah*) (Mohd Arif and Hanapi, 2017). Under the category of financial asset, securities such as shares, stocks and managed fund also need to be managed in accordance to the requirements and practices of Shariah.

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APPENDICES

1. Result of Correlation

	ANNUAL_RETURN	GROSS_MARGIN	ROA	ROE
ANNUAL_RETURN	1.000000	-0.192780	0.216233	0.153529
GROSS_MARGIN	-0.192780	1.000000	0.247106	0.169385
ROA	0.216233	0.247106	1.000000	0.695696
ROE	0.153529	0.169385	0.695696	1.000000

2. Result of Ordinary Least Square (OLS) Test

Dependent Variable: ANNUAL_RETURN

Method: Least Squares

Date: 07/20/19 Time: 16:11

Sample: 1 77

Included observations: 77

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.32756	7.244909	1.839576	0.0699
GROSS_MARGIN	-0.539646	0.234342	-2.302810	0.0241
ROA	1.110438	0.624586	1.777879	0.0796
ROE	0.008861	0.288494	0.030716	0.9756
R-squared	0.111331	Mean dependent var		7.243748
Adjusted R-squared	0.074810	S.D. dependent var		28.91553
S.E. of regression	27.81292	Akaike info criterion		9.539428
Sum squared resid	56469.77	Schwarz criterion		9.661185
Log likelihood	-363.2680	Hannan-Quinn criter.		9.588130
F-statistic	3.048439	Durbin-Watson stat		1.987318
Prob(F-statistic)	0.033950			